"In 2005, the total number of building permits issued reached 91,000 units, a slight decline from the 93,200 units in the previous year"

HOUSING

Housing Construction

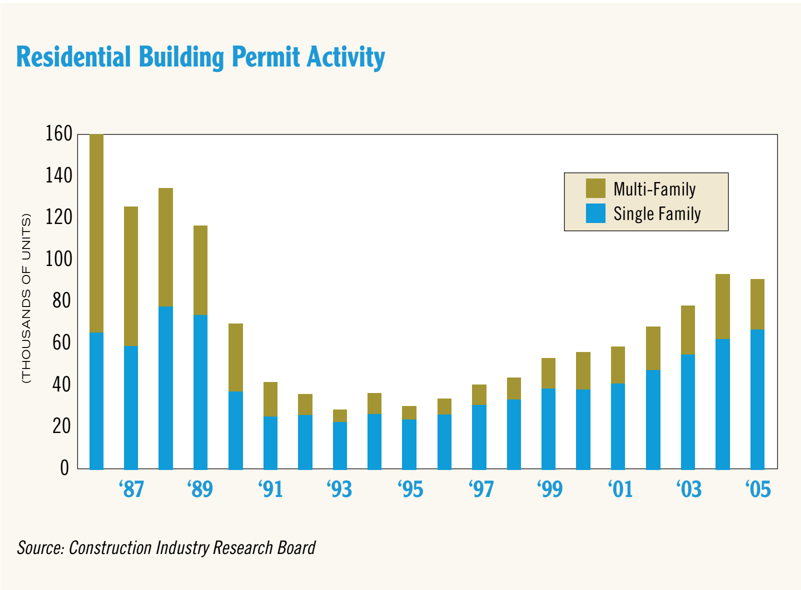
Why is this important?

The magnitude of housing construction, population growth, and new households is a major determinant of housing prices. Different geographical distributions of new housing result in different needs for support infrastructure and services. The residential construction industry is also an important source of employment and corporate profit in the region.

How are we doing?

In 2005, the total number of building permits issued reached 91,000 units, though declining slightly from the 93,200 units in the previous year, it was still the second highest since 1989 (Figure 25). Notably, the decline was only within the multi-family sector in which the number of permits decreased by 22 percent (or 6,800 units) in one year. Permits for single-family units achieved a modest 7 percent (or 4,600 units) increase, significantly less than the 16 percent annual increase between 2001 and 2004. Since the mid-1990s, housing construction activities in the region have experienced a significant recovery. Between 1995 and 2001, the number of permits issued rose steadily, and between 2001 and 2004 the rate of increase accelerated. Total number of residential building permits increased from about 30,000 units in 1995 to over 91,000 units in 2005, more than tripled.

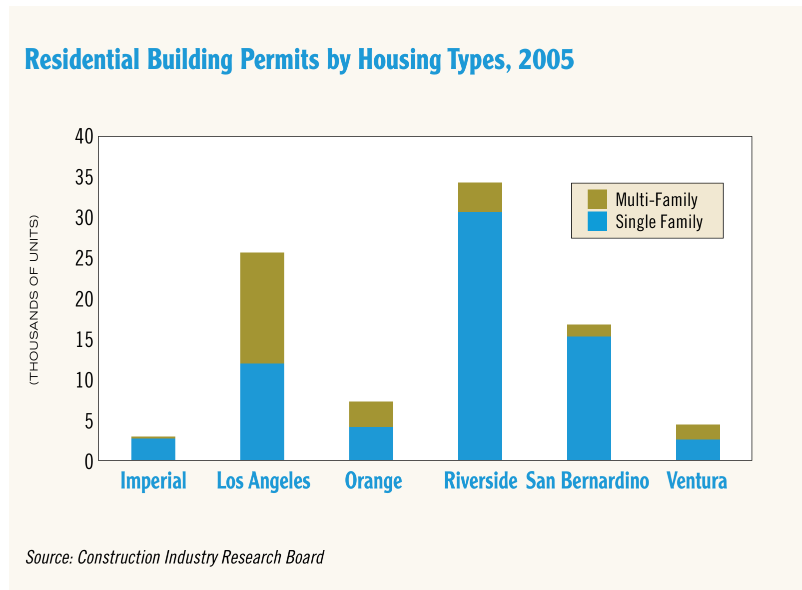
Figure 25



Between 2004 and 2005, the number of permits issued decreased in Orange County (-1,900 units, or 21 percent), San Bernardino County (-1,800 units or 10 percent) and Los Angeles County (-1,300 units or 5 percent). The declines were concentrated almost exclusively in multi-family units. In Orange County, the permit tally dropped in three consecutive years to about 7,200 units in 2005, the lowest since 1994. Riverside County generally maintained its level of 34,000 units with permits during 2004 and 2005. Imperial County experienced the highest growth rate with building permits increasing from 1,200 units to 2,900 units (or 140 percent) in the past two years while Ventura County also achieved a 23-percent increase during the same period.

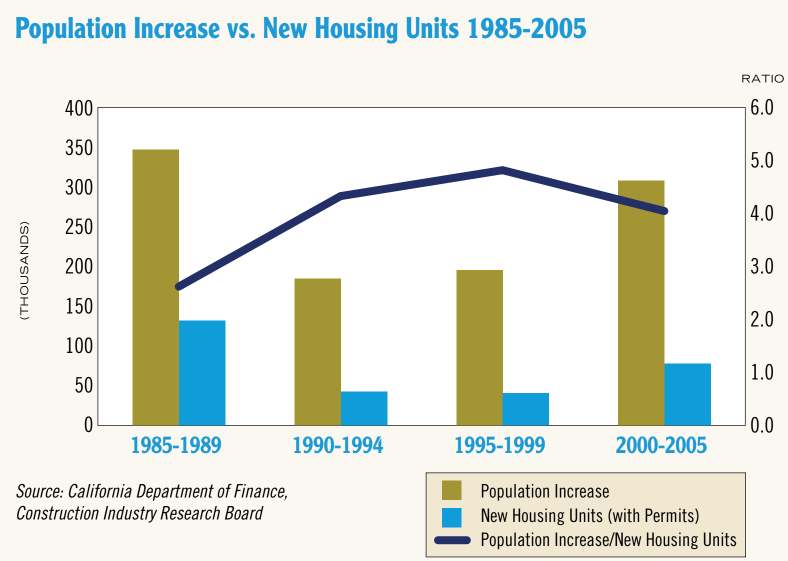
As to the distribution of permits within the region, the Inland Empire counties accounted for about 58 percent of the total permits issued in 2005. In particular, Riverside County led among the six counties in the total number of permits issued (34,300 units), close to 40 percent of the regional total, followed by Los Angeles County (25,600 units, or 29 percent).

Figure 26



Among the total permits issued in 2005, about 27 percent were for multi-family housing, a decrease from about 31 percent over the past five years. *However, within the region, there continued to be significant differences between the coastal and inland counties with respect to the share of multi-family housing permits.* Specifically, each of the three coastal counties achieved at least 40 percent of the permits issued for multi-family units including Los Angeles (53 percent), Orange (44 percent) and Ventura (42 percent) (Figure 26). Los Angeles County led the nation in multi-family development, with 10,900 multi-family units under construction at the end of 2005.[1] In Ventura County, the 42 percent share of multi-family housing permits was a significant increase from 14 percent just three years ago. In the remaining three inland counties, close to 90 percent of the total permits were for single-family housing construction.

Figure 27



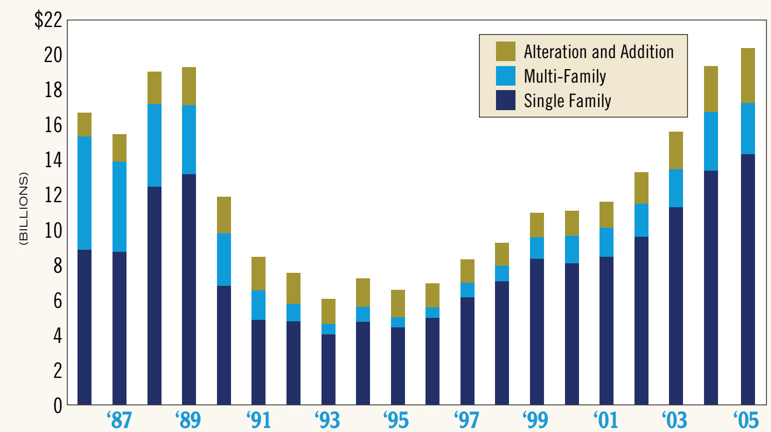
Source: California Department of Finance, Construction Industry Research Board

Since 2000, the continuous increase of permit activities (except 2005) and the recent slowdown in population growth have narrowed the gap significantly between housing supply and demand. For example, yearly population in the region increased by about 300,000 between 2000 and 2005 compared to only 195,000 between 1995 and 1999, a rise about 50 percent. However, annual building permits issued during the period from 2000 to 2005 were over 72,000, an 80 percent increase from about 40,000 units in the previous 5-year period (Figure 27). Hence, the ratio between population growth and new housing units with permits declined noticeably from 4.8 persons per unit (during the period between 1995 and 1999) to 4 persons per unit (during the period between 2000 and 2005), though still higher than the average household size of 3.1 persons per unit.

Total valuation of permits in 2005 reached over $20.4 billion, with an annual increase of $3.8 billion (or 5.6 percent), significantly less than the record 25 percent during the previous period (Figure 28). Between 2001 and 2005, total valuation of permits increased by $8.8 billion. *While the housing construction industry in the region almost collapsed during the recession in the early 1990s, it has been serving as an important stabilizing force for the regional economy since the 2001 recession.*

Figure 28

Valuation of Residential Building Permits



Source: Construction Industry Research Board

Homeownership

Why is this important?

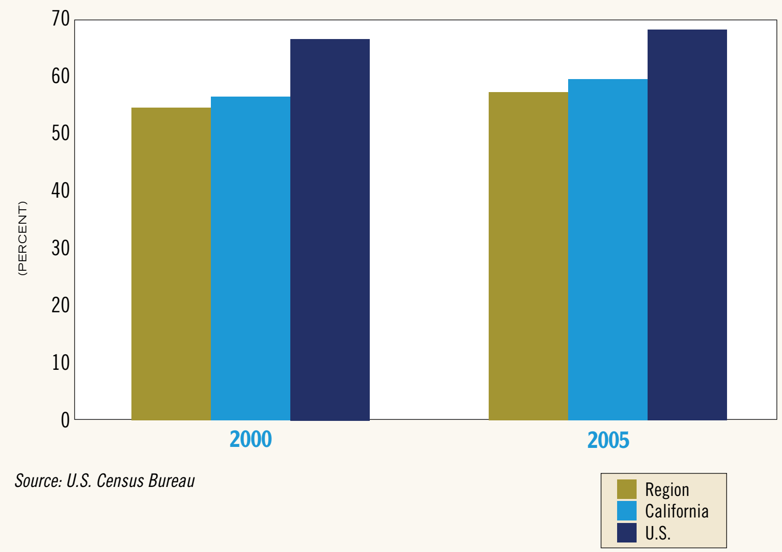
Owning one's home has long been considered an important part of the American Dream. The equity generated from homeownership represents almost 45 percent of total household wealth.[2] Higher homeownership rates also help to improve neighborhood stability.

How are we doing?

From 2004 to 2005, homeownership rates remained almost unchanged at the regional, state and national levels. Since 2000, homeownership in the region has been increasing steadily to reach over 56 percent, an increase of about 2 percentage points (Figure 29).[3] Within the region, every county achieved an increase in homeownership during the five year period. Homeownership in Riverside County reached 70.4 percent in 2005, the highest in the region and followed by Ventura County with 69 percent.[4] Riverside and Ventura counties are the only two counties with homeownership higher than the national average. Between 2000 and 2005, homeownership increased from 58.8 to 62 percent in Orange County while it remained at 58 percent in Imperial County.[5] Los Angeles County, though its homeownership increased from 46.9 percent in 2000 to over 49 percent in 2005, continued to have the lowest homeownership in the region.[6]

Figure 29

Homeownership Rates



Source: U.S. Census Bureau

Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the second lowest homeownership, just above the New York region (53 percent). Detroit's and Philadelphia's homeownership rates at 74 and 70 percent respectively in 2005 were the only two regions with homeownership higher than the national average.[7]

Housing Affordability

Why is this important?

Housing affordability provides an indication of the level of financial burden of housing expenses. Housing constitutes the largest share of household expenditures among all consumption items. When a household spends too much on housing, there is not enough left to meet other household needs, such as transportation, healthcare or education. Housing affordability also affects decisions as to where to live. Hence, housing affordability is an indicator reflecting the fundamental well-being of households. In addition, it influences business decisions to locate or expand in the region. Lack of affordable housing will result in a weakening of our region's attractiveness and competitiveness.

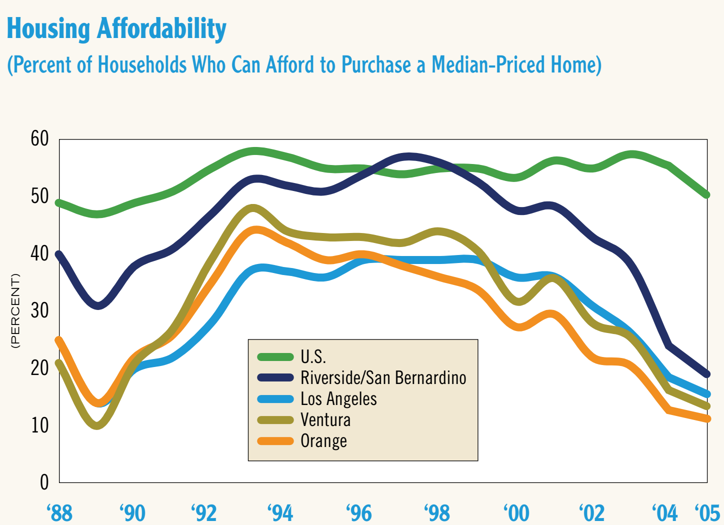
How are we doing?

Housing affordability can be measured by the share of households that can afford to purchase a median-priced home or by the share of household income spent on housing. *By both measures, housing affordability continued to decline throughout Southern California and reached a record low in 2005.*

In the three coastal counties (Los Angeles, Orange and Ventura), the share of households able to afford a median-priced home dropped below 15 percent in 2005, the lowest since 1989. In Los Angeles County, the affordability measure dropped from 19 percent in 2004 to 14 percent in 2005, after a 7 percentage point drop in the previous period. In Ventura and Orange counties, the affordability measure dropped to 13 and 11 percent respectively.

Over the last few years, the sharpest decline of affordability occurred in the traditionally more affordable Inland Empire where the share of households able to afford a median-priced home dropped 30 percent, from 48 percent in 2001 to only 18 percent in 2005 (Figure 30). In 2005, every county in the region had lower housing affordability than the national average and the gaps have continued to widen since 1997. While about half of the nation's households could afford a median-priced house in 2005, less than 15 percent of the region's households could achieve the same.

Figure 30

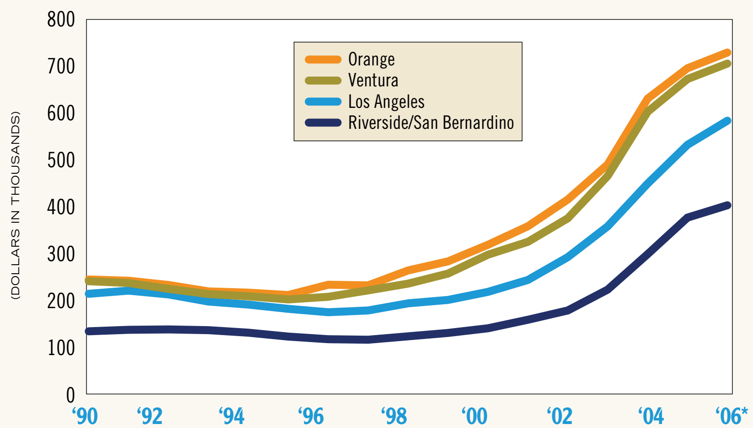


** Data for Imperial County is not available*
Source: California Association of Realtors

Housing affordability is generally impacted by household income, home prices and mortgage interest rates. *During 2005, continuing sharp increases in home prices combined with the lack of growth in median household income and slight increase in interest rates made housing less affordable.*

Real median household income declined slightly by 0.5 percent from 2004 to 2005 and achieved a very modest 2 percent increase since 2000. However, median home prices in the region reached historic peaks in 2005 in almost every county in the region (Figure 31). Since 1998, after recovering from the losses during the previous recession, median home prices had increased between 8 and 12 percent per year up to 2001. Between 2001 and 2005, partly because of lower mortgage interest rates and continuing population growth, median home prices for existing homes more than doubled in Los Angeles, Ventura, and the Inland Empire, while almost doubling in Orange and Imperial counties. For example, the median price for existing homes in Los Angeles County rose from $241,000 in 2001 to $529,000 in 2005, an increase of about $290,000 (or 120 percent) in just four years. During the same period, median existing home price in the Inland Empire increased from $157,000 to $374,000, an increase of $220,000 (or 140 percent). Between 2001 and 2005, home price in Imperial County also increased from about $125,000 to $234,000, almost doubled.[8] Data in the first six months in 2006 showed the rate of home price appreciation slowed down across the region.

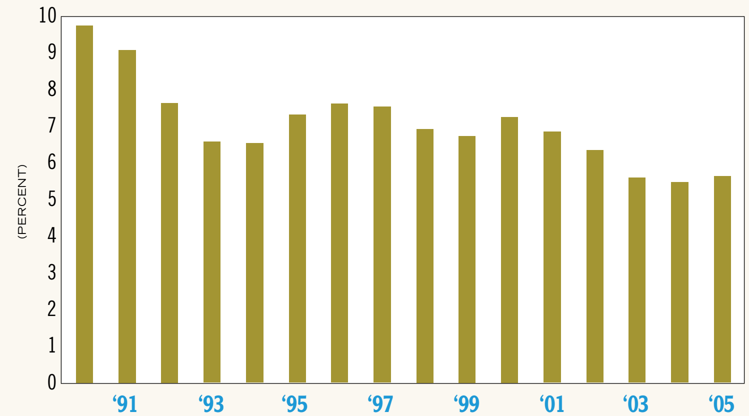
Figure 31



*Based on June 2006 median home prices
Source: California Association of Realtors, Imperial County data not available

The record high home prices were affected by several factors including low interest rates, wider availability and uses of non-traditional mortgage financing and the accumulation of unmet demand since the early 1990s. In 2005, average mortgage interest rate rose slightly from 5.5 to 5.64 percent, still one of the lowest in the past 40 years (Figure 32). Lower interest rates could allow for higher selling prices and still keep the same monthly mortgage payment amount. In addition, there are wider availability and uses of non-traditional mortgage financing in recent years.

Figure 32



Source: Real Estate Research Council of Southern California

In 2005, over 48 percent of the region's owner households (with a mortgage) had monthly costs at or greater than 30 percent of household incomes, about a 3 percent increase from 2004 and up from 39 percent in 2000 (Figure 33). Statewide data further indicated that 20 percent of recent California homeowners (those who have purchased a house within the last 2 years) spend more than half of their incomes on housing costs.[9] At the national level in 2005, only 35 percent of owner households had monthly costs at or greater than 30 percent of household incomes. In 2005, the SCAG region had the second highest housing cost burden among the nine largest metropolitan regions in the nation following the San Francisco Bay Area with 50 percent of owner households had monthly costs at or greater than 30 percent of household incomes.

Figure 33

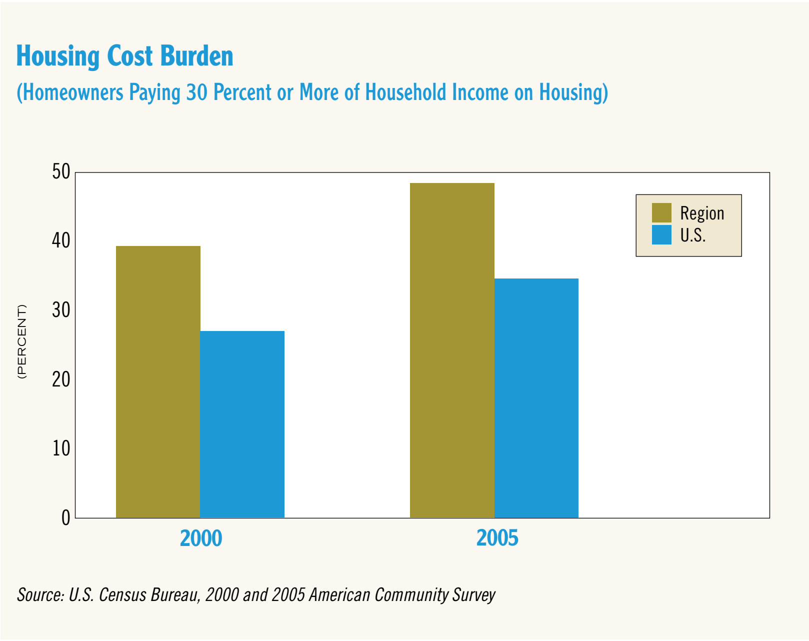
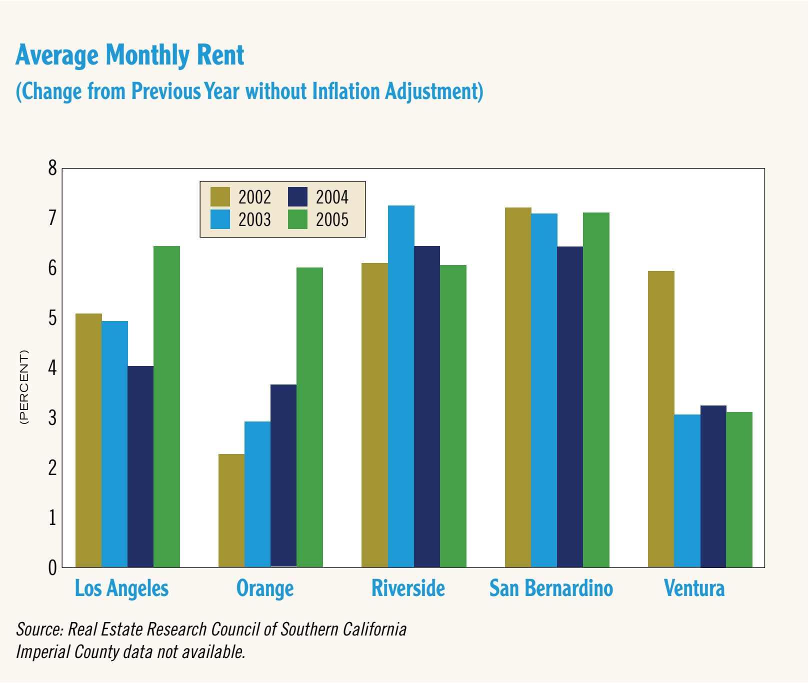


Figure 34

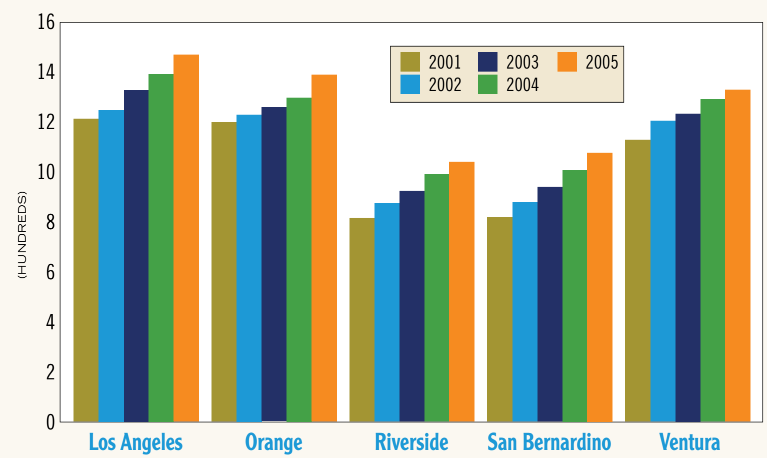


With rising interest rates, record home prices and continuing population growth, demand for rental units has been growing. The conversion of apartments to condominiums has also reduced the supply of rental units. For example, in the City of Los Angeles, about 11,000 apartments have been converted to condos since 2004.[10] Between 2004 and 2005, average rents in the region increased generally by more than 6 percent (without adjusting for inflation) (Figure 34).

In 2005, average monthly rents were about $1,400 in the coastal counties and above $1,000 in the Inland Empire (Figure 35). The Los Angeles/Orange county area topped all markets in the west for the most expensive monthly rents while occupancy rate increased by 0.5 percent to almost 96 percent. With rent increases significantly exceeding household income growth, rental cost burden has continued to rise. *Among the over 2.4 million renter households in the region in 2005, more than 53 percent (1.3 million renter households) spent 30 percent or more of their incomes on rent, up from almost 49 percent in 2000 (Figure 36).* Since 2000, rental cost burden has been increasing at the regional, state and national levels.

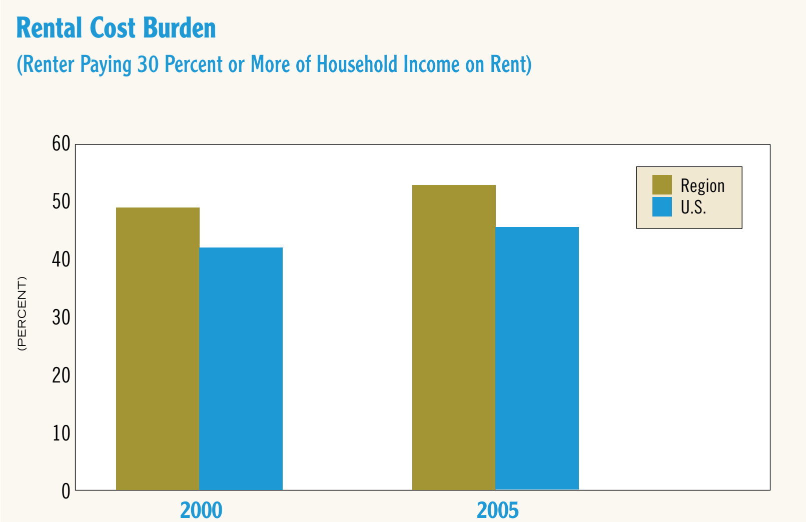
Figure 35

Average Monthly Rent
(Current Dollars)



Source: Real Estate Research Council of Southern California
Imperial County data not available.

Figure 36



Source: U.S. Census Bureau, 2000 and 2005 American Community Survey

Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest share (53 percent) of rental households with monthly rent at or greater than 30 percent of household income (see Figure 89 page 155). Following the SCAG region was the New York region, with 49 percent of renters spending 30 percent or more of their incomes on rent. In addition, California had the highest median rent among all states in 2005. Hence, rental housing is an important public policy issue at the regional as well as the state levels.

The extraordinary high housing cost burdens not only impact the well-being of residents but also discourage business decisions to locate or expand in the region. Lack of affordable housing remains a serious challenge to the region's long-term economic growth.

Housing Crowding

Why is this important?

Housing crowding measures the percent of housing units with more than one person per room, including all rooms except bathrooms. It provides an indication of housing shortages and housing affordability. Lack of affordable housing will lead to higher levels of housing crowding.

How are we doing?

In 2005, about 10.6 percent of the occupied housing units were considered to be crowded, a slight decrease of 0.5 percent from the previous year.[11] Between 2000 and 2005, the share of crowded housing in the SCAG region declined by 3.2 percent. Within the region, Los Angeles County continued to have the highest rate (12.7 percent) of crowded housing. Overcrowding is most common among low-income households and most prevalent in renter housing. In 2005, Southern California continued to have the highest rate of crowded housing among the nine largest metropolitan regions.[12]